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# On the relationship between individual and group decisions

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Each member of a group receives a signal about the unknown state of the world and decides on a utility-maximizing recommendation on the basis of that signal. The individuals have identical preferences. The group makes a decision that maximizes the common utility function assuming perfect pooling of the information in individual signals. An action profile is a group action and a recommendation from each individual. A collection of action profiles is rational if there exists an information structure under which all elements in the collection arise with positive probability. With no restrictions on the information structure, essentially all action profiles are rational. In fact, given any distribution over action profiles, it is possible to find an information structure that approximates the distribution. In a monotone environment in which individuals receive conditionally independent signals, essentially any single action profile is rational, although some collections of action profiles are not.

**KEYWORDS.** Statistical decision problem, group polarization, behavioral economics, psychology, forecasting.

**JEL CLASSIFICATION.** A12, D01.

## 1. INTRODUCTION

A decision maker asks several informed experts for advice prior to making a decision. Each expert recommends an action to the decision maker. The recommended action maximizes the decision maker's utility given the information available to the expert. The decision maker selects an action. Suppose that the decision maker appears to ignore the recommendations of the experts—say by taking an action that is not in the convex hull of these recommendations. Can we conclude that the decision maker is irrational? More generally, can an observer examine the experts' recommendations and form a useful estimate of the decision maker's rational action?

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A scientist has access to several independent forecasts of the weather. Is there any relationship between these forecasts and the optimal aggregate forecast based on all available information? Is the optimal aggregate forecast bounded by the individual forecasts?

Individuals receive information about the facts in a lawsuit. They are asked in isolation to recommend punitive damage awards. Later, these individuals meet together as a jury, deliberate, and make a collective decision on punitive damages. How does a rational jury's decision depend on the expressed recommendations of individual jury members prior to deliberation?

This paper studies a simple model of information aggregation designed to give answers to these questions. Individuals have common preferences but different information. Each individual observes a signal and, using that signal, makes a recommendation. The recommendation maximizes the individual's utility given the signal. The group then pools all of the individual signals and makes a decision based on the pooled information. There is no conflict of interest between group members and the group perfectly aggregates the information of its members. In this setting, I investigate the extent to which group's optimal decision is constrained by the recommendations of the individuals.

I model differences in information by assuming that there is an underlying state of the world and that individuals receive private signals that convey information about the state. The information structure describes the relationship between states of the world and signals. Asking individuals to make recommendations separately and then as a group generates an *action profile* (consisting of a recommendation from each individual and a separate group decision). A collection of action profiles is *rational* if there exists an information structure under which all elements in the collection arise with positive probability.

Section 2 demonstrates in different ways that individual recommendations do not constrain the group action. In particular, I show that for fixed preferences, essentially any finite collection of action profiles is rational. Hence, essentially no finite data set consisting of individual recommendations and group actions is inconsistent with rational decision making. When preferences are not fixed, a much stronger result is possible. Here for any given probability distribution over action profiles, there exists a specification of preferences and information that generates a probability distribution over action profiles arbitrarily close to the given distribution. These results say that there is no connection between individual recommendations and the group's optimal decision.

In Section 3, I assume that the information structure is monotone. The state of nature, signals, and action are real numbers. Higher signals are stochastically associated with higher states of the world. I further assume that preferences are restricted so that higher beliefs about the state induce higher actions. In this environment, individual recommendations do constrain group actions. If all individuals recommend a strictly higher action, then the corresponding group action must be higher. This cross-profile restriction need not hold in nonmonotone problems. Alternatively, even in monotone models, the group's optimal action is not restricted by the individual recommendations.

Suppose (as in Section 3) actions are elements of the real line. Here there is a natural, weak notion of moderation. The group's decision is moderate if it is bounded by the

lowest and highest recommendations. Group decisions would be moderate if they were weighted averages of the individual recommendations. The results in Sections 2 and 3 demonstrate that moderate problems are special. In Section 4, while still assuming a monotone structure, I identify a (restrictive) condition that is necessary and sufficient for moderation.

An example illustrates why group decisions are unlikely to be moderate and provides intuition for other results in the paper.<sup>1</sup> Suppose that the state of the world is normally distributed with a known mean and variance, and that each individual receives a signal that is equal to the true state plus noise. The noise is normally distributed with mean zero and individual signals are conditionally independent given the state. The common objective is to minimize the distance between the recommendation and the state of the world, so that recommendations equal the expected value of the state given available information. Suppose an individual's signal is higher than the prior mean. Her recommendation will be a weighted average of the signal and the prior mean. If every member of the group makes the same recommendation, then the group is more confident in the information content of the signal than any individual. The group's action is, therefore, greater than the individual recommendations. This follows because the aggregate signal is more informative than an individual signal and, hence, the group places relatively less weight on the prior mean than an individual. It is not surprising that a group of individuals with similar biases makes decisions that are more extreme than the recommendations of individual group members.

Research on "expert resolution" (Winkler 1986) studies rules one might use to aggregate the opinions of experts. A typical rule is a function from individual opinions to an aggregate opinion. This literature contains examples that show linear aggregation rules need not be optimal. The literature on combining forecasts (starting from Bates and Granger 1969) also looks at ways in which to aggregate estimates from different sources. This literature is more in the tradition of classical (rather than Bayesian) statistics, so it is not directly comparable to the approach of this paper, but like the research on expert resolution, focuses on identifying aggregation rules that are optimal within a parametric family. These models assume that individual expert opinions or forecasts are available to the modeler. The literature asks for optimal ways to aggregate the recommendations of experts. My results indicate that there is no reason to expect aggregation rules in a parametric class to perform well. In particular, it may be rational for a decision maker who receives identical recommendations from several reliable but partially informed experts to ignore the common recommendation and make another decision. Hence, rules that generate an aggregate decision by taking a convex combination of individual recommendations may not perform well.

There is a large literature in social psychology on "group polarization."<sup>2</sup> Group polarization refers to the tendency of groups to make decisions that are more extreme than some central tendency of the individual positions of the members of the group. The phenomenon, first observed in experiments reported by Stoner (1968), has been widely

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<sup>1</sup>Roux and Sobel (2012) discuss the example in more detail.

<sup>2</sup>Brown (1986) devotes a long chapter to the topic. Isenberg (1986) provides a review.

replicated. Experiments typically elicit recommendations from individuals, and then put individuals in groups and record a decision made by the group. Hence, the experiments record individual recommendations and group decisions. The structure of these experiments justifies my modeling approach. The experiments observe individual recommendations and a group decision. I assume the modeler observes these data. The experiments also provide opportunities for individuals to arrive at the group decision. Neither the experiments nor I model the deliberation process explicitly. I assume that somehow individuals use all available information optimally.<sup>3</sup>

The experiments on group decision making performed by Schkade et al. (2000) provide a concrete example of the third motivating example. Individual subjects receive information relevant to a hypothetical court case. They each record a punitive verdict and a damage verdict. Subjects then are randomly placed into groups of six; these groups deliberate and decide on punitive and damage verdicts. In this setting, the experimenter observes the individual recommendations about verdict and damage, and the group opinion about these quantities. The experimenter does not observe detailed information about these quantities. My model assumes that the deliberation process aggregates this information. When pre-deliberation juror judgments favor a high punishment rating, deliberation tends to increase the rating of the group relative to the median individual rating. When pre-deliberation juror judgments favor a low punishment rating, deliberation tends to decrease the rating of the group relative to the median individual rating. Hence, both group punishment and damage awards are more extreme than individual awards. These results suggest a systematic relationship between the group's action and the individual recommendations (group polarization). In particular, the group does not moderate individual recommendations. This paper presents a framework that explains why moderation is not a general property of information aggregation.

The psychology literature often interprets polarization as a sign that group interactions lead to nonoptimal decisions and introduces behavioral explanations for the experimental results.<sup>4</sup> This paper demonstrates that polarization is consistent with rational decision making of both groups and individuals. The experimental literature finds that polarization arises systematically in a wide range of settings. This observation leads to the question of whether there are environments in which polarization is not only possible, but likely. A companion paper, Roux and Sobel (2012), gives conditions under which one might expect the polarization found in the experiments of Schkade et al. (2000) and Stoner (1968).

Eliasz et al. (2006) present the first, and to my knowledge only other, decision-theoretical model of choice shifts.<sup>5</sup> Groups must decide between a safe and a risky

<sup>3</sup>In some examples, there is a one-to-one relationship between individual recommendations and individual information. In these cases, individual recommendations are sufficient statistics for individual information.

<sup>4</sup>Brown (1986) surveys the results and the psychological theories.

<sup>5</sup>Dixit and Weibull (2007) demonstrate that when individuals have heterogeneous priors, the arrival of new information may cause their posteriors to diverge. In this way, information may lead to polarization of beliefs. Dixit and Weibull do not compare group beliefs (or actions) to those of the individuals within the group.

choice. The paper summarizes group decision making by a pair of probabilities: the probability that an individual's choice will be pivotal (determine the group's decision) and the probability distribution over outcomes in the event that the individual is not pivotal. In this framework, choice shifts arise if an individual would select a different recommendation alone than as part of a group. If individual preferences could be represented by von Neumann–Morgenstern utility functions, then choice shifts would not arise. Eliaz et al. (2006) prove that systematic choice shifts do arise if individuals have rank-dependent preferences consistent with observed violations of the Allais paradox. Moreover, the choice shifts they identify are consistent with experimental results.<sup>6</sup> Assuming that an individual is indifferent between the safe and the risky action in isolation, she will choose the safe action when a pivotal member of the group does if and only if the probability that the group would otherwise choose the safe action is sufficiently high. Unlike my approach, this model does not rely on information aggregation. Eliaz et al. (2006) concentrate on how preferences revealed within groups may differ from preferences revealed individually, but it is not designed to study how deliberations may influence individual recommendations. An appealing aspect of the Eliaz et al. (2006) approach is the connection it makes between systematic shifts in group decisions and systematic violations of the expected utility hypothesis.

There is an experimental literature on group decision making that focuses on topics traditionally studied by economists. A fundamental question is whether groups make better decisions than individuals. My model assumes perfect information aggregation, common interests, and optimization. Consequently, the group's recommendation must be better (ex ante) than any individual recommendation and at least as good as any function of individual recommendations. In practice, groups may not perform better than individuals, but for reasons not captured in my model.

## 2. A BENCHMARK MODEL

There are  $I > 1$  individuals. Individual  $i$  has a utility function that depends on an action<sup>7</sup>  $a \in A$  and the state of the world  $\theta \in \Theta$ . Denote the utility function by  $u$ . Each individual receives a private signal  $s \in S$  about the state of the world. I assume in this section that  $\Theta$ ,  $A$ , and  $S$  are finite. Let  $\pi(\theta)$  be the prior probability of state  $\theta$ . Assume that  $\pi(\theta) > 0$  for all  $\theta \in \Theta$ . Let  $P(\theta; \mathbf{s})$  be the joint probability that the state is  $\theta$  and the profile of signals is  $\mathbf{s} = (s_1, \dots, s_I)$ , and let  $p(\theta|\mathcal{I})$  be the conditional probability that the state is  $\theta$  given the information  $\mathcal{I}$ .<sup>8</sup> Note that  $\pi(\theta) = \sum_{\mathbf{s}} P(\theta; \mathbf{s})$  and that it is straightforward to represent  $p(\cdot)$  in terms of  $P(\cdot)$  and  $\pi(\cdot)$ . I refer to  $(\Theta, S, \pi, p, P)$  as the information structure and to  $(S, P, u)$  as the decision problem.

I compare two situations. When individuals act privately, they each select  $a_i^*(s_i)$  to maximize  $\sum_{\theta \in \Theta} u(a, \theta) p(\theta|s_i)$ . When individuals act collectively, they select  $a_0^*(\mathbf{s})$ . In general,  $a_0^*(\mathbf{s})$  depends on the institution by which agents share information. When

<sup>6</sup>Because the set of actions is binary, Eliaz, Ray, and Razin cannot explain situations in which group actions are strictly more extreme than individual actions.

<sup>7</sup>I refer to action choices of individuals as recommendations and to action choices of groups as decisions.

<sup>8</sup>Information  $\mathcal{I}$  is one signal  $s$  or a profile  $\mathbf{s}$ .

preferences differ, it is not clear how the group should decide on its collective decision. Even when preferences coincide, psychological or strategic considerations may prevent the group decision from being optimal given available information.

I focus on the benchmark case in which the interests of the individuals are the same and in which  $a_0^*(\mathbf{s})$  is chosen optimally so that  $a_0^*(\mathbf{s})$  solves

$$\max_{a \in A} \sum_{\theta \in \Theta} u(a, \theta) p(\theta | \mathbf{s}).$$

Since  $u(\cdot)$  is independent of  $i$ ,  $a_i^*(\cdot)$  is also independent of  $i$  for  $i > 0$ . The group decision  $a_0^*(\cdot)$  is a different function because it depends on signal profiles not on individual signals.

Assume that individual recommendations are chosen optimally. An observer knows the actions taken at the group and individual levels (but not the information structure). Is it possible for the observer to conclude that a collective decision is not optimal? If so, then observing that action is evidence that the group decision was incorrect. If not, then the argument that polarization (or any other tendency of the group decision) is irrational must be reexamined.

This section contains a series of results that suggest that individual recommendations do not constrain the group's action. Propositions 1 and 2 show that given essentially any distribution of action profiles, there is an information structure under which these action profiles arise with positive probability. These results make no restrictions on preferences. While they show that any combination of individual recommendations and group actions is possible, they do not rule out the possibility that one can make inferences about the action of the group from the individual recommendations. Proposition 3 demonstrates that the distribution of group beliefs does place restrictions on individual beliefs and characterizes these restrictions. Proposition 4 states that there are preferences and an information structure consistent with essentially any pattern of individual recommendations and group decisions. Finally, Proposition 6 shows that similar results are possible even when individuals receive conditionally independent signals.

Proposition 1 describes a property of aggregate beliefs obtained from information aggregation. Suppose the observer manages to elicit the beliefs of the group before and after information aggregation in a finite number of situations. Further suppose that all of the beliefs elicited place positive probability on all of the states. The proposition asserts that there is an information structure that is consistent with these observations in the sense that there are signal profiles that induce all of the observed beliefs. Hence, individual beliefs place no constraints on group beliefs.

To state the proposition, define a *belief profile* to be a vector  $\mathbf{q} = (q_0; q_1, \dots, q_I)$  such that each  $q_i$  is a probability distribution on  $\Theta$ . The belief profile  $\mathbf{q}$  is *interior* if  $q_i(\theta) > 0$  for all  $i$  and  $\theta$ .

**PROPOSITION 1.** *Let  $Q$  be a finite set of interior belief profiles. There exist a signal set  $S$  and a joint probability distribution  $P(\theta; s_1, \dots, s_I)$  such that for every  $\mathbf{q} = (q_0; q_1, \dots, q_I) \in Q$ , there exists a signal profile  $\mathbf{s} = (s_1, \dots, s_I)$  with  $P(\theta; \mathbf{s}) > 0$  such that  $q_0(\theta) = p(\theta | \mathbf{s})$  and  $q_i(\theta) = p(\theta | s_i)$  for all  $i = 1, \dots, I$ .*

The existence of a signal profile  $\mathbf{s}$  that satisfies the conclusion of the proposition is, mathematically, the statement that there exists an information structure for which a family of linear inequalities has a solution. The proof of Proposition 1 constructs an information structure with the appropriate characteristics.<sup>9</sup> There is a signal  $s^k$  for each belief profile  $\mathbf{q}^k \in Q$  and one distinct residual signal. When an individual receives the signal  $s^k$ , her updated belief is  $q_i^k$ . When all individuals receive the signal  $s^k$ , the group's posterior is  $\mathbf{q}^k$ . Such a signaling technology satisfies the conditions of the proposition and is not difficult to construct.

A simple consequence of Proposition 1 is that individual recommendations place no constraints on the group's decision. Let  $\mathbf{a} = (a_0; a_1, \dots, a_I) \in A^{I+1}$  denote an action profile. Interpret  $a_0$  as the joint action and interpret each  $a_i$ ,  $i = 1, \dots, I$ , as an action of individual  $i$ . Call an action  $a \in A$  undominated if there exists  $q_i \in \text{int}(\Delta)$  such that  $a$  solves  $\max_{a \in A} \sum_{\theta \in \Theta} u(a, \theta) q_i(\theta)$ .<sup>10</sup> The signal profile  $\mathbf{s} = (s_1, \dots, s_I)$  induces  $\mathbf{a}$  if  $a_0 = a_0^*(\mathbf{s})$  and  $a_i = a_i^*(s_i)$  for all  $i = 1, \dots, I$ . The action profile  $\mathbf{a}$  is possible if there exists a signal profile  $\mathbf{s}$  that induces  $\mathbf{a}$ .

**PROPOSITION 2.** *Let  $A$  be a finite set of profiles of undominated actions. There exists a signal set  $S$  and a joint probability distribution  $P(\theta; s_1, \dots, s_I)$  such that for every  $\mathbf{a} = (a_0; a_1, \dots, a_I) \in A$ , there exists a signal profile  $\mathbf{s} = (s_1, \dots, s_I)$  with  $P(\theta; \mathbf{s}) > 0$  such that  $\mathbf{s}$  induces  $\mathbf{a}$ .*<sup>11</sup>

Proposition 2 states that any undominated action profile is possible. Dominated action profiles are not possible, so observing a dominated action is evidence that someone failed to optimize. The proposition demonstrates that there need not be any connection between individually optimal and collectively optimal actions. In particular, the proposition implies that group decisions that are “extreme” relative to individual choices need not be a sign of irrationality. In particular, if  $A$  is ordered, then nothing prevents  $a_0$  from being greater than all of the other components of  $\mathbf{a}$ . Therefore, it is premature to assume that the group decision is not optimal even when collective decisions differ systematically from individual recommendations.

Proposition 2 is an immediate consequence of Proposition 1. Since  $A$  is finite, only a finite number of distinct action profiles exist. If  $\mathbf{a}$  is one of these profiles, then there exists a belief profile  $\mathbf{q}$  such that  $a_i$  is a best response to  $q_i$  for each  $i = 0, 1, \dots, I$ .

The conclusion that no group decision is inconsistent with individual recommendations does not depend on the assumption that agents select a recommendation that maximizes expected utility. The result continues to hold provided that beliefs determine actions (so the preferences can be described by a nonexpected utility functional or a behavioral rule of thumb).

There is a possible extension to Propositions 1 and 2. One could ask, “Does there exist an information structure that gives rise to any joint distribution over belief and

<sup>9</sup>The Appendix contains the proof of Proposition 1 and of all subsequent results that require proof.

<sup>10</sup>The definition rules out degenerate cases in which action  $a$  maximizes the expected payoff only if one or more states is assigned probability 0.

<sup>11</sup>I am grateful to Hamid Sabourian for pointing out that I misstated this proposition in earlier versions of this manuscript.



action profiles?" An affirmative answer to this question would be the strongest possible "anything goes" result. It would say that it is possible to rationalize not only any finite set of observations (as in Proposition 2), but also any distribution over observations. The next two results investigate constraints placed on distributions over belief and action profiles.

The information structure  $(\Theta, S, \pi, p, P)$  induces a probability distribution over belief profiles in a natural way. Each  $\mathbf{s}$  determines a belief profile and  $P$  determines the probability of each  $\mathbf{s}$ . Proposition 1 demonstrates that for any given family of interior belief profiles, there is an information structure for which each member of the family arises with positive probability. The information structure may induce other belief profiles and Proposition 1 says nothing about the induced probability distribution over belief profiles. For example, the information structure constructed in Proposition 1 may induce the belief profiles in  $Q$  with arbitrarily small probability. Proposition 3 characterizes the set of distributions over belief profiles that can be generated by an information structure.

**PROPOSITION 3.** *Given a positive integer  $K$  and  $k \in \{1, \dots, K\}$ , fix a finite family of belief profiles  $Q = \{(q_0^k; q_1^k, \dots, q_I^k)\}_{k=1}^K$  and positive numbers  $r_k$  such that  $\sum_{k=1}^K r_k = 1$ . If, for all  $k$ , the information structure  $(\Theta, S, \pi, p, P)$  induces belief profile  $\mathbf{q}^k = (q_0^k; q_1^k, \dots, q_I^k)$  with probability  $r_k$ , then the following statements hold:*

- (i) *For all  $i = 1, \dots, I$ ,  $\sum_{k=1}^K q_i^k r_k = \sum_{k=1}^K q_0^k r_k$ .*
- (ii) *There exists  $\lambda_i^k(j)$ ,  $i = 1, \dots, I$  and  $j, k = 1, \dots, K$ , such that for all  $i, j$ , and  $k$ ,  $\lambda_i^k(j) \geq 0$ , and, for all  $i$  and  $j$ ,  $\sum_{k=1}^K \lambda_i^k(j) = 1$  and  $q_i^j = \sum_{k=1}^K \lambda_i^k(j) q_0^k$ .*

*Conversely, if (i) and (ii) hold, then for any  $\varepsilon > 0$ , there exist a signal set  $S$ , a joint probability distribution  $P(\theta; s_1, \dots, s_I)$ , and, for  $k = 1, \dots, K$ , belief profiles  $\tilde{\mathbf{q}}^k$  and positive numbers  $\tilde{r}_k$  with  $\sum_{k=1}^K \tilde{r}_k = 1$ , such that the information structure  $(\Theta, S, \pi, p, P)$  induces the belief profile  $\tilde{\mathbf{q}}^k$  with probability  $\tilde{r}_k$  for  $k = 1, \dots, K$ , and*

$$|\mathbf{q}^k - \tilde{\mathbf{q}}^k| < \varepsilon \quad \text{and} \quad |r_k - \tilde{r}_k| < \varepsilon.$$

An implication of Proposition 3 is that not all distributions over belief profiles can be generated by an information structure. The necessary conditions in the proposition are intuitive and follow directly from Bayes's rule. Condition (i) states that the average belief of each individual is equal to the average belief of the group. Condition (ii) states that any belief that arises with positive probability for individual  $i$  is in the convex hull of group beliefs. Since individual  $i$  knows the information structure, she can compute  $\{q_0^k\}$ ;  $\lambda_i^k(j)$  is the conditional probability that individual  $i$  believes that the group's belief will be  $q_0^k$  given that the belief she forms based on her own information is  $q_i^j$ . Given (ii) it is straightforward to verify that (i) holds if and only if  $\sum_{j=1}^K r_j \lambda_i^k(j) = r_k$ .

Conditions (i) and (ii) are approximately sufficient. Given a probability distribution over belief profiles and a positive  $\varepsilon$ , there is an information structure that leads to a distribution over (approximately) these belief profiles within  $\varepsilon$  of the given distribution.

I cannot rule out the possibility that certain distributions of action profiles are not consistent with the basic model, but the next proposition demonstrates that there is a decision problem that gives rise to a distribution on action profiles that is arbitrarily close to any given joint distribution. To see why some distributions could be inconsistent with the model, imagine a distribution over action profiles in which the group action is constant. In this case, it is a best response for all individuals to recommend the group's action with probability 1, since an individual can infer that the group—acting with better information—will always take this action. Consequently, if the information structure generates unique best responses to all signals, the only individual recommendations consistent with a family of action profiles in which the group's decision is constant must also involve individuals always recommending the same action.<sup>12</sup>

Recall that an action profile is an element  $\mathbf{a} = (a_0; a_1, \dots, a_I) \in A^{I+1}$ . A distribution on action profiles is a probability distribution on  $A^{I+1}$ . A decision problem  $(S, P, u)$  induces a distribution on action profiles. The probability of  $\mathbf{a} = (a_0; a_1, \dots, a_I) \in A^{I+1}$  is the probability of

$$\{\mathbf{s} \in S^I : a_i^*(s_i) = a_i, i = 1, \dots, I; a_0^*(\mathbf{s}) = a_0\}.$$

**PROPOSITION 4.** *Given any  $\varepsilon > 0$  and any joint distribution on action profiles  $\rho$ , there exists a decision problem  $(S, P, u)$  such that the distribution of action profiles induced by  $(S, P, u)$  is within  $\varepsilon$  of  $\rho$ .*

Proposition 4 states that it is not possible to refute the hypothesis that the group is rational without making a priori restrictions on the information structure or preferences. The difference between Proposition 2 and Proposition 4 is that the first result fixes preferences and then shows that any action profile is possible, while the second result provides a stronger conclusion (rationalizing any distribution over actions) but requires a possibly different specification of preferences for every distribution.

Proposition 2 indicates that for general information structures, individual choices place no constraints on the optimal decision of the group. It is possible that these results rely on “strange” information structures. Propositions 1–4 depend on the assumption that signals can be correlated. A more restrictive assumption is that individuals receive signals that are conditionally independent. Henceforth, I assume that the information structure can be described by functions  $\alpha_i : S \times \Theta \rightarrow [0, 1]$ , where  $\alpha_i(s|\theta)$  is the probability that individual  $i$  receives signal  $s$  given that the state is  $\theta$  (so that  $\sum_s \alpha_i(s|\theta) = 1$  for all  $\theta$  and  $i$ ).

This environment is considerably more restrictive than the general framework. Proposition 1 asserts that essentially any collection of individual and group posteriors is consistent with some information structure. To the contrary, if individuals receive conditionally independent signals, then the group posterior is determined by the individual posteriors.

<sup>12</sup>This argument does not rule out the existence of an information structure and a utility function that gives rise to a distribution of action profiles in which the group's decision is constant and individual recommendations vary. Constructing such an environment would require individuals to be indifferent between the constant group decision and the alternative individual decision. In the proof of Proposition 4, individuals always have a unique best response to their signal.

**PROPOSITION 5.** *If the individual signals are conditionally independent, then the group posterior distribution is completely determined given individual conditional beliefs. In particular, if individual  $i$  has beliefs  $q_i$ , then the group's beliefs are*

$$\frac{\pi(\theta) \prod_{i=1}^I (q_i(\theta) / \pi(\theta))}{\sum_{\omega} \pi(\omega) \prod_{i=1}^I (q_i(\omega) / \pi(\omega))}.$$

Proposition 5 follows directly from Bayes's rule and the independence assumption.

Although Proposition 5 rules out the strong conclusions of Propositions 1 and 2, Example 1 demonstrates that it still may be difficult to draw inferences about group decisions from individual recommendations.

**EXAMPLE 1.** Suppose that  $\theta = (\theta_1, \dots, \theta_I)$ , individual  $i$  observes  $s_i = \theta_i$  (that is, individual  $i$  observes the  $i$ th component of  $\theta$  without error), each component of  $\theta$  is independently and uniformly distributed on  $\{-1, 1\}$ , and  $u(a, \theta) = -(a - \prod_{i=1}^I \theta_i)^2$ . An individual sets  $a_i^*(s_i) = 0$  for all  $s_i$ . The group sets  $a_0^*(\mathbf{s}) = \prod_{i=1}^I s_i$  for all  $\mathbf{s}$ .

Information obtained by an individual (or, in fact, any proper subset of the group) is useless—it conveys no information that improves making decisions—while the entire group's information perfectly reveals the state. Individual recommendations, therefore, do not depend on private information, whereas the group decision does. Knowing everything about individual recommendations provides no information about the group's preferred action.  $\diamond$

Unlike the construction in Example 1, the construction in Proposition 2 does permit an observer to draw inferences from individual recommendations. The example differs from the construction because it requires a particular specification of the utility function.

It is possible to generalize the logic of the example.

**PROPOSITION 6.** *There exists a decision problem  $(S, P, u)$  such that all action profiles are possible and the distribution of the group action  $a_0^*(\mathbf{s})$  is independent of  $s_i$  for each  $i$ .*

Proposition 6 provides conditions under which individual recommendations convey no information about the group decision. To prove Proposition 6, I generalize the example by exhibiting preferences and an information structure under which no individual signal conveys information about the optimal action. The information structure exhibits a strong form of complementarity in that no useful inferences can be drawn from any proper subset of the signals.<sup>13</sup> If the prior is such that individuals are indifferent over all actions ex ante, then the individuals continue to be indifferent after they receive their private signals. Hence, observing their individual recommendations conveys no information about the optimal group action. In this setting, not only are arbitrary action profiles possible, there need be no relationship between the distribution of individual recommendations and the group recommendations.

Example 1 and Proposition 6 are perverse because information from any proper subset of the agents does not lead to better decisions than the decision a single individual

<sup>13</sup>See Börgers et al. (2013) for a useful analysis of complementarity of signals.

would make. In the next section, I make further restrictions on the information structure and preferences. I then revisit the basic question in a standard, but restrictive, economic environment.

### 3. MONOTONE PROBLEMS

The previous section shows that with minimal restrictions on the information structure, there need not be any connection between the group's decision and individual recommendations. In this section, I make strong restrictions on the information structure and investigate the extent to which the results in Section 2 continue to hold. Proposition 7 demonstrates that there are restrictions across problems: if the action profile  $\mathbf{a}$  is possible, then some other action profiles are ruled out. This result contrasts with those of Section 2 and indicates that, within the class of decision problems that I consider in this section, individual recommendations place testable restrictions on the behavior of the group when there are several observations. Alternatively, Propositions 8 and 9 demonstrate that when one observes only one action profile, the optimal group decision is only weakly constrained by individual recommendations.

This section studies monotone information structures, which satisfy the following conditions. The set  $\mathcal{A}$  is the unit interval. The conditional probability of a signal  $s$  given the state  $\theta$ ,  $\alpha_i(s|\theta)$ , is independent of  $i$  so that signals are identically (as well as independently) distributed. To avoid trivial cases, I assume that  $S$  has more than one element and that signals are distinct in the sense that if  $s' \neq s$ , then  $p(\cdot|s) \neq p(\cdot|s')$ . The information structure and the utility function have a monotone structure: I assume that both  $\Theta$  and  $S$  are linearly ordered, and that the signals satisfy the monotone-likelihood ratio property, so that  $\alpha(s|\theta)/\alpha(s'|\theta)$  is decreasing in  $\theta$  for all  $s' > s$ ,<sup>14</sup> and that for all  $a' > a$ , the function  $v(\theta; a, a') = u(a', \theta) - u(a, \theta)$  is either increasing in  $\theta$  (supermodular incremental utility) or there exists  $\theta_0$  such that  $v(\theta) < 0$  for  $\theta < \theta_0$  and  $v(\theta) > 0$  for  $\theta > \theta_0$  (single-crossing incremental utility). These conditions guarantee that optimal actions are increasing in signals, meaning that  $a_i^*(s') \geq a_i^*(s)$  whenever  $s' > s$ .<sup>15</sup> I refer to these cases as the *supermodular* and *single-crossing* models, respectively.

Proposition 2 cannot hold for this restricted class of problems because the monotonicity condition imposes a restriction across problems. If one observes two action profiles  $\mathbf{a}$  and  $\mathbf{a}'$  such that  $\mathbf{a}'_{-0} > \mathbf{a}_{-0}$ , then  $a'_0 > a_0$ . Hence, there does not exist a single monotonic information structure that makes all undominated action profiles possible.

**PROPOSITION 7.** *For a fixed monotonic information structure, if  $\mathbf{a}$  and  $\mathbf{a}'$  are possible and  $a'_i > a_i$  for all  $i = 1, \dots, I$ , then  $a'_0 \geq a_0$ .*

A variation of Proposition 7 holds under a mild technical condition. A monotone information structure is *strictly increasing* if  $s'_i > s_i$  implies that  $a_i(s'_i) > a_i(s_i)$ .

<sup>14</sup>This condition implies that the posterior distribution of  $\theta$  given  $s$  is increasing in  $s$  (in the sense of first-order stochastic dominance).

<sup>15</sup>When incremental utility is supermodular, optimal actions are increasing in signals whenever posteriors are ordered by first-order stochastic dominance. When incremental utility is single crossing, optimal actions are increasing in signals when signals satisfy the monotone-likelihood ratio property. See Athey and Levin (2001).

**COROLLARY 1.** *For a fixed strictly increasing information structure, if  $\mathbf{a}$  and  $\mathbf{a}'$  are possible and  $a'_i \geq a_i$  for all  $i = 1, \dots, I$ , then  $a'_0 \geq a_0$ .*

Proposition 7 is a special case of Theorem 5 in Milgrom and Weber (1982). It is a straightforward implication of the monotone information structure. If an individual makes a strictly higher recommendation, then she must have received a strictly higher signal. If all signals are higher, then the group decision must also be higher. Corollary 1 follows for essentially the same reason. If the information structure is strictly increasing, then if  $a'_i \geq a_i$ , then it must be that  $s'_i \geq s_i$  for all  $i$ .

To make the subsequent discussion concrete, consider two leading special cases. A monotone model is an *urn model* if  $u(a, \theta) = -(a - f(\theta))^2$  for some strictly increasing function  $f(\cdot)$ .<sup>16</sup> Here  $v(\theta; a', a)$  is increasing in  $\theta$  whenever  $a' > a$ , so the urn model is a supermodular model. In the urn model,  $\theta$  represents the number of balls in an urn and  $f(\theta)$  represents a target determined by the number of balls. The agents want to make the best estimate of the target  $f(\theta)$ .

A monotone model is a *portfolio model* if  $u(a, \theta) = U(a\theta + (1 - a)\theta_0)$ , where  $U(\cdot)$  is a concave function defined over monetary outcomes. A portfolio model is a single-crossing model. The problem is to determine the share of wealth to allocate over a safe asset, which yields  $\theta_0$ , and a risky asset, which yields  $\theta$ . Individuals must pick the fraction  $a$  of the portfolio to invest in the risky asset. Risk-averse agents typically select  $a < 1$ , even when their information suggests that the mean of  $\theta$  exceeds  $\theta_0$ . Alternatively, if sufficiently many agents receive independent information that suggests that the mean return of the risky asset is high, this induces higher investments in the risky asset when information is pooled.

The next results demonstrate that even in monotone models, it is difficult to draw inferences about the group decision merely by observing individual recommendations. In light of Proposition 5, such results are not possible if the utility function is completely arbitrary. To see this concretely, suppose that the prior is uniform and the utility function is such that an individual recommends  $a \leq \underline{a}$  if and only if the probability of state  $\underline{\theta}$  is greater than .5. It follows from Proposition 5 that if all individuals make recommendations less than  $\underline{a}$ , then the group posterior places probability of more than .5 on the event that  $\theta = \underline{\theta}$ . Consequently, the group's decision is also less than  $\underline{a}$ . It follows that restrictions on preferences combined with a monotone information structure may cause individual recommendations to constrain the group's decision. Proposition 8 shows that the link between individual recommendations and group decisions does not exist without restrictions on preferences.

**PROPOSITION 8.** *For all  $\mathbf{a} = (a_0; a_1, \dots, a_I)$  with  $a_i \in [0, 1]$ , there exist both an urn model and a portfolio model such that there exists  $\mathbf{s}$  such that  $\mathbf{s}$  induces  $\mathbf{a}$ .*

Proposition 8 states that an observer who knows the recommendations of all of the individuals and who knows that a monotone decision problem is either an urn problem

<sup>16</sup>Strictly increasing transformations of the state space  $\Theta$  do not change the underlying decision problem, so including  $f(\cdot)$  in the specification of  $u(\cdot)$  is just a relabeling of the states.

or a portfolio problem (but not the specific form of the utility function) still cannot conclude that the group has made an irrational decision. This result is weaker than Proposition 2 for three reasons. First, Proposition 2 constructs one information structure that is compatible with any given (finite) set of recommendation profiles. Proposition 8 instead constructs a different information structure for each profile. Proposition 7 explains why the stronger result is not possible in a monotone environment. Second, Proposition 2 holds even if the observer knows the utility function. In Proposition 8, the utility function is selected to support observed behavior. The utility function is not arbitrary, however. It is always possible to find a suitable utility function from the class of urn models and portfolio models that is consistent with the action profile.<sup>17</sup> Finally, the construction requires that there be more than one signal that leads to the same action in some circumstances. To understand and relax this restriction, it is useful to explain the proof of Proposition 8.

To prove Proposition 8, I construct an information structure with the property that if all but two agents receive the lowest possible signal and two others receive the next lower signal, the group posterior is higher than the posterior of individuals who receive the second lowest signal. For this to be possible, the individual who receives the second lowest signal must place high probability that everyone else will receive the lowest signal. When she learns that this is not true, she (and, hence, the group) revises her prior strongly upward. Under the assumptions of Proposition 8, it is possible that many signals induce the lowest action. Therefore, even if all individuals wish to take the lowest action, they may not have received the lowest signal, and the group may prefer a higher decision. If the optimal action is a strictly increasing function of the signal, however, the conclusion of the proposition must be weakened.

To make a precise statement, let  $O_k(\mathbf{a}_{-0})$  be the  $k$ th largest member of the set  $\mathbf{a}_{-0} = \{a_1, \dots, a_I\}$  (so that  $O_1(\mathbf{a}_{-0}) = \max_{i=1, \dots, I} a_i$ ,  $O_2(\mathbf{a}_{-0})$  is the second highest, and so on).

**PROPOSITION 9.** *If  $\mathbf{a} = (a_0; a_1, \dots, a_I)$  with  $O_2(\mathbf{a}_{-0}) > 0$  and  $O_{I-1}(\mathbf{a}_{-0}) < 1$ , then there exists both an urn model and a portfolio model with the property that  $a_i^*(s)$  is strictly increasing for all  $i$  such that  $\mathbf{a}$  is possible.*

The assumptions in Proposition 9 rule out the possibility that individual information leads all but one agent to make the same extreme recommendation (either the highest or the lowest). Provided these assumptions hold, it can be rational for the group to make any decision. For monotone problems in which optimal actions are strictly increasing in the signal, the conditions are necessary. To see this, suppose that all but individual  $i$  wish to make the lowest recommendation, so  $O_2(\mathbf{a}_{-0}) = 0$ . In this case, the optimal group decision  $a_0$  must be no greater than  $a_i$ , since learning that all other agents wish to make the lowest recommendation must be “bad news,” which makes the group’s decision weakly lower than individual’s  $i$  optimal recommendation. Hence, an observer can place bounds on the possible group decision, assuming that all but one individual wants to take the lowest recommendation. Proposition 9 demonstrates that no further

<sup>17</sup>In the proof of Proposition 8,  $U(x)$  can be taken to be of the form  $U(x) = x^\beta$  for  $\beta \in (0, 1)$ . That is, it is possible to satisfy the conclusion of Proposition 8 using a narrow class of utility functions.

restrictions are possible. In particular, the proposition states that it is possible for the group to want to make a more extreme decision than any individual in the group.

#### 4. INVARIANCE

The results in Section 3 imply that even in monotone problems, it is premature to conclude that any group decision is irrational given the decisions of individual group members. While staying within the framework of monotone problems, I now identify conditions under which group decisions are well behaved in the sense that they are guaranteed to be bounded by the individual recommendations.

Intuition suggests that for a suitable range of information structures, the group guess in the urn model should be bounded by individual guesses. If everyone thinks that there are between 100 and 300 balls in the urn, then it would be surprising if the group's guess were outside that range.

This section makes the intuition rigorous. To motivate the basic idea, contrast the problem of information aggregation with the problem of preference aggregation. When aggregating preferences, it is standard (and usually not controversial) to assume a variation on Arrow's (1963) Pareto principle. If every member of the group ranks choice  $X$  higher than choice  $Y$ , then the group should do so as well. In problems of information aggregation, this property is quite strong and likely to be inappropriate in realistic settings. Consider the portfolio problem. It could be the case that risk-averse individuals prefer to invest a substantial fraction of their portfolio in the safe asset even when informed that the mean of  $\theta$  is greater than  $\theta_0$ . Alternatively, a large enough number of independent signals that  $\theta > \theta_0$  is sufficient to convince the group to take a more extreme position.<sup>18</sup>

This observation suggests a critical difference between the urn and the portfolio models, and motivates the following definition.

Imagine a situation in which every member of the group receives the same signal. They would, consequently, make the same recommendation. Under what conditions would the group decision be the same as the common recommendation of each individual?

Call a monotone decision problem *invariant* if

$$a_i^*(s_i) = a_0^*(s_i, \dots, s_i) \quad \text{for all } s_i. \quad (1)$$

That is, a decision problem is invariant if the optimal group decision when all members of the group independently observe the same signal realization is the same as the optimal individual recommendation given one observation of that realization. While (1) is easy to understand, it is a statement about endogenously determined quantities. Proposition 11 provides conditions on the underlying data of the problem (the information structure and the utility function) that guarantee that (1) holds.

Recall that in a strictly increasing decision problem,  $s'_i > s_i$  implies that  $a_i(s'_i) > a_i(s_i)$ .

<sup>18</sup>In a non-Bayesian framework, Baurmann and Brennan (2005) give examples that illustrate potential difficulties of the Pareto principle for problems that involve aggregation of beliefs.

PROPOSITION 10. (i) In a strictly increasing decision problem, if  $\mathbf{a}$  is possible, then

$$a_0 \in \left[ \min_{1 \leq i \leq I} a_i, \max_{1 \leq i \leq I} a_i \right]. \quad (2)$$

(ii) Any monotone decision problem in which (2) holds whenever  $\mathbf{a}$  is possible is invariant.

Proposition 10(i) is a simple consequence of Proposition 7. It states that invariant monotone problems are well behaved in the weak sense that the individual recommendations form a bound for the group's decision. To see Proposition 10(ii), notice that if invariance fails, then there would exist an  $s$  such that (2) would fail if everyone in the population received that signal.

When the sets of actions and states are small, it is not hard to construct invariant problems. For example, if there are only two actions,  $\{h, l\}$ , and two states,  $\{H, L\}$ , and it is uniquely optimal to take  $h$  (resp.  $l$ ) if and only if the probability of  $H$  (resp.  $L$ ) is greater than .5, then any monotonic information structure in which, for every signal, the posterior never gives probability .5 to both states is invariant.

The next example exhibits an invariant problem by describing a situation where (1) holds.

EXAMPLE 2. Assume that  $\Theta = S = \{0, 1/K, \dots, (K-1)/K, 1\}$ ;  $\pi(\cdot)$  is the uniform distribution on  $\Theta$  and  $u(a, \theta) = -(a - \theta)^2$  for  $a \in A = [0, 1]$ . Let  $\gamma \in (0, 1/2)$  and

$$\alpha(s, \theta) = \begin{cases} 1 - \gamma/2 & \text{if } s = \theta \in \{0, 1/K, 1 - 1/K, 1\} \\ 1 - \gamma & \text{if } s = \theta \in \{2/K, \dots, (K-2)/K\} \\ \gamma/2 & \text{if } s = \theta + 1/K, \theta \in \{0, 1/K\} \\ \gamma/2 & \text{if } s = \theta - 1/K, \theta \in \{1 - 1/K, 1\} \\ \gamma/2 & \text{if } s = \theta \pm 1/K \text{ and } \theta \in \{2/K, \dots, (K-2)/K\} \\ 0 & \text{otherwise.} \end{cases}$$

Individuals seek the best estimate of  $\theta$ . The signal is the true state plus a symmetric error. Individual  $i$  recommends  $a_i(s) = a$ . If every member of the group receives the same signal, the recommendation is the same (and the posterior places more weight on  $s = \theta$ ).  $\diamond$

Clemen and Winkler (1990) say that a decision maker satisfies the *unanimity principle* if she accepts a forecast if both of her two advisors agree. Invariant problems with binary actions necessarily satisfy the unanimity principle. Clemen and Winkler show that the principle fails in general when there are two states of the world, but they provide an example under which the unanimity principle holds. They also discuss the *compromise principle*, which is equivalent to invariance in their context.

One way to get a better understanding of invariance is to think about the condition when  $I$  is large. If all  $I$  members of the population receive the signal  $s$ , then the group's



posterior distribution is given by

$$r(\theta|s; I) = \frac{\alpha^I(s|\theta)\pi(\theta)}{\sum_{\omega \in \Theta} \alpha^I(s|\omega)\pi(\omega)}.$$

Let  $\Theta(s) = \arg \max_{\theta} \alpha(s|\theta)$ . It follows that the limiting posterior distribution,  $r^*(\theta; s) \equiv \lim_{I \rightarrow \infty} r(\theta|s; I)$ , is given by

$$r^*(\theta; s) = \begin{cases} \frac{\pi(\theta)}{\sum_{\omega \in \Theta(s)} \pi(\omega)} & \text{if } \theta \in \Theta(s) \\ 0 & \text{if } \theta \notin \Theta(s). \end{cases}$$

In particular, if  $\alpha(s|\theta)$  has a unique maximum  $\theta^*(s)$ , then  $r^*(\cdot; s)$  is the point mass on  $\theta^*(s)$ . If a decision problem is invariant for all  $I$ , then the optimal response to signal  $s$ ,  $a_i^*(s)$ , also maximizes  $\sum_{\theta \in \Theta} u(a, \theta) r^*(\theta|s)$ .

It is unlikely that a decision problem is invariant for all  $I$ . When  $\alpha(\cdot)$  must be a continuous function on  $[0, 1] \times [0, 1]$ , invariance fails for a given utility function on a set of information structures that is open and dense with respect to the sup norm.

Nevertheless, the conditions make sense in the urn model (provided that signals are symmetric estimates of the true state).

It is possible to generalize Example 2. First, assume that the information technology is *nondegenerate*: for each  $s$ ,  $\alpha(s|\theta)$  has a unique maximizer, denoted by  $\theta^*(s)$ . It follows that  $r^*(s|\theta)$  is a point mass on  $\theta^*(s)$  and (1) becomes

$$E\{u_a(a_i^*(s), \theta)|s\} = u_a(a_i^*(s), \theta^*(s)).$$

Second, assume that

$$\frac{\sum_{\theta \in \Theta} \alpha(s|\theta)\theta\pi(\theta)}{\sum_{\omega \in \Theta} \alpha(s|\omega)\pi(\omega)} = \theta^*(s) \quad \text{for all } s. \quad (3)$$

That is, the mean of  $\theta$  given  $s$  is equal to  $\theta^*(s)$  for all  $s$ . Call the information technology *uniformly neutral* if (3) holds. The first assumption is mild. The second assumption is restrictive. One would expect that the highest signal is “good news,” so that receiving multiple independent draws strictly increases the mean of the distribution. Indeed, while there exist uniformly neutral information technologies (see Example 2), (3) requires the extreme signals to completely reveal the extreme states.

The following result is immediate from the definitions.

**PROPOSITION 11.** *If  $u(a, \theta) = -(a - \theta)^2$ , and the information structure is nondegenerate and uniformly neutral, then the decision problem is invariant.*

Propositions 10 and 11 combine to identify a class of decision problems in which group decisions are bounded by individual recommendations.<sup>19</sup>

<sup>19</sup>Chambers and Healy (2012) study a related problem in which they characterize information structures with the property that the posterior mean given a signal lies between the prior mean and the signal. When preferences take the form  $u(a, \theta) = -(a - \theta)^2$  (so that recommendations are equal to posterior means) and there exists an uninformative signal, invariant information structures must satisfy updating toward the mean.

The next example describes a natural situation under which the recommendation of the most extreme individual becomes the recommendation of the group.

EXAMPLE 3. Recall that the Pareto distribution with strictly positive parameters  $\theta_0$  and  $\beta$  has the probability density function

$$f(\theta|\theta_0, \beta) = \begin{cases} \frac{\beta\theta_0^\beta}{\theta^{\beta+1}} & \text{when } \theta > \theta_0 \\ 0 & \text{when } \theta \leq \theta_0. \end{cases}$$

The following statement is a standard property of conjugate distributions (see DeGroot 1970, p. 172).

FACT 1. *Suppose that each of the  $I$  agents receives a signal from a uniform distribution on  $[0, \theta]$ , where  $\theta$  itself is unknown. Suppose that the prior distribution of  $\theta$  is the Pareto distribution with parameters  $\theta_0$  and  $\beta$ ,  $\theta_0$  and  $\beta > 0$ . The posterior distribution of  $\theta$  given that individual  $i$  receives the signal  $s_i$  is a Pareto distribution with parameters  $\tilde{s}$  and  $\beta + I$ , where*

$$\tilde{s} = \max\{\theta_0, s_1, \dots, s_I\}.$$

Now assume that  $u(a, \theta) = -(a - \theta)^2$ . An individual who receives the signal  $s_i$  believes that  $\theta$  has a Pareto distribution with parameters  $\tilde{s}_i = \max\{\theta_0, s_i\}$  and, consequently, because maximizing  $u(\cdot)$  requires choosing  $a$  equal to the expected value of  $\theta$ , selects  $a_i^*(s_i) = (\beta + 1)\tilde{s}_i/\beta$ , while the collectively optimal choice is  $a_0^*(\mathbf{s}) = (\beta + I)\tilde{s}/(\beta + I - 1)$ .

In this example, the highest signal provides a lower bound on  $\theta$  and, therefore, is a sufficient statistic for all of the signals. That is, when the individuals pool their information, only the signal of the most extreme individual determines the collective decision. When individuals pool their information, two things happen: the variance of the distribution of  $\theta$  decreases<sup>20</sup> and the lower bound of the distribution increases. Due to the first effect, the collective decision is less than the choice of the individual who received the greatest signal, but the ratio of the collectively rational decision to the maximum individual recommendation converges to 1 as  $I$  grows. This problem is not invariant. While the group decision is bounded above by the maximum individual recommendation, it is possible for the group decision to be lower than the recommendation of every member of the group.

The specification is special, but could be appropriate for some contexts. For example, imagine that the signal an individual receives indicates the minimum amount of damage that could have been done to a plaintiff. When jurors pool their information, it is only the highest signal that is relevant for estimating damages. Hence, efficient information aggregation implies that the recommendation of the most extreme member of the group determines the group decision.  $\diamond$

<sup>20</sup>This follows because the exponent in the Pareto distribution increases.

## 5. CONCLUSION

This paper compares the decisions of individuals and groups for information aggregation problems. I show that generally there is no systematic relationship between recommendations individuals make in isolation and the decision that the individuals make as a group. I then identify restrictive situations in which individual recommendations bound the decision of the group.

I establish my results in a narrow setting. I assume that groups have no problems aggregating information and reaching a joint decision. Anyone who has ever served on a committee knows that these assumptions are unrealistic.

The weight of academic and popular evidence convinces me that groups can often make bad decisions for systematic reasons, that the reasons can be evaluated, and that institutions can be created to ameliorate the problems. The decision-making environment at NASA has been blamed for several tragedies in the U.S. space program. Janis's (1982) discussion of "groupthink" among President Kennedy's national security advisors foreshadows the recent failures of United States intelligence agencies. My model does not refute the existence of flawed group decision making, but it does point out that apparent anomalies in group behavior are consistent with a simple, rational model of information aggregation.

## APPENDIX

PROOF OF PROPOSITION 1. Given  $\mathbf{q}^k$  and  $C_k > 0$ , define  $\lambda_i^k(\theta)$  by

$$\lambda_0^k(\theta) = C_k q_0^k(\theta) \quad (4)$$

and, for  $i = 1, \dots, I$ , by

$$\lambda_i^k(\theta) = C_k(q_i^k(\theta) - q_0^k(\theta)) + d_k q_i^k(\theta), \quad (5)$$

where  $d_k = C_k q_0^k(\theta) / (\min_{i>0} q_i^k(\theta))$ . The choice of  $d_k$  guarantees that  $\lambda_k(\cdot) > 0$ .

Because  $q_i^k(\cdot)$  is a probability distribution, it follows from these definitions that

$$\sum_{\theta \in \Theta} \lambda_0^k(\theta) = C_k \quad (6)$$

and, for  $i > 0$ ,

$$\sum_{\theta \in \Theta} \lambda_i^k(\theta) = d_k. \quad (7)$$

It follows from (4) and (6) that

$$q_0^k(\theta) = \frac{\lambda_0^k(\theta)}{\sum_{\omega \in \Theta} \lambda_0^k(\omega)}. \quad (8)$$

Furthermore, it follows from (4) and (5) that

$$(d_k + C_k)q_i^k(\theta) = \lambda_0^k(\theta) + \lambda_i^k(\theta)$$

and so, by (6) and (7), that

$$q_i^k(\theta) = \frac{\lambda_0^k(\theta) + \lambda_i^k(\theta)}{\sum_{\omega \in \Theta} (\lambda_0^k(\omega) + \lambda_i^k(\omega))}. \quad (9)$$

Now consider a signaling technology in which there is a signal  $s^k$  for each  $k$  and an additional signal  $\tilde{s}$ . Let

$$P(\theta; \mathbf{s}) = \begin{cases} \lambda_0^k(\theta) & \text{if } s_j = s^k \text{ for all } j \\ \lambda_i^k(\theta) & \text{if } s_i = s^k \text{ and } s_j = \tilde{s} \text{ for all } j \neq i \\ \pi(\theta) - (\sum_k \lambda_0^k(\theta) + \sum_{i,k} \lambda_i^k(\theta)) & \text{if } s_j = \tilde{s} \text{ for all } j \\ 0 & \text{otherwise.} \end{cases}$$

By taking  $C_k$  sufficiently small, it is possible to make  $P(\cdot) \geq 0$ .

If the joint distribution of  $\theta$  and  $s$  is given by  $P(\cdot)$ , then it follows from (8) that if the group receives the signal profile  $\mathbf{s} = (s^k, \dots, s^k)$  for some  $k$ , then the group posterior is  $\mathbf{q}^k(\cdot)$ , whereas (9) implies that if individual  $i$  receives  $s^k$ , then her posterior is  $q_i^k(\cdot)$ .  $\square$

**PROOF OF PROPOSITION 3.** Replace  $q_0^k$  by a rational distribution  $\tilde{q}_0^k$ , where  $\tilde{q}_0^k(\theta) = m_k(\theta)/M$  (and  $\sum_{\theta} m_k(\theta) = M$ ) such that  $|q_0^k(\theta) - \tilde{q}_0^k(\theta)| < \varepsilon$  for all  $\theta$  and  $k$ .

Create a set  $\Lambda$  by taking  $M$  copies of  $\Theta$ . A typical element of  $\Lambda$  is  $(\theta, m)$  for  $\theta \in \Theta$  and  $m = 1, \dots, M$ . Assume that there is a uniform distribution on  $\Lambda$ . Consider a partition of  $\Lambda$  into sets  $\Lambda_k$ ,

$$\Lambda_k = \{(\theta, M_{k-1}(\theta) + 1), \dots, (\theta, M_k(\theta)) : \theta \in \Theta\},$$

where  $M_k(\theta) = \sum_{j=1}^k m_j(\theta)$  (and  $M_0(\theta) = 0$  by convention).

Assuming a uniform distribution on  $\Lambda$ , learning the partition element  $\Lambda_k$  induces the belief  $\tilde{q}_0^k$  because for each  $\theta$ ,  $\Lambda_k$  has  $m_k(\theta)$  elements associated with  $\theta$ .

Now form  $\Gamma$ . An element of  $\Gamma$  is of the form  $\mathbf{g} = (g_1, \dots, g_I)$ , where  $g_i \in \{1, \dots, G\}$  and  $G$  is sufficiently large so that there is a rational approximation to  $r = (r_1, \dots, r_K)$ ,  $\tilde{r}$ , with  $\tilde{r}_k = n_k/G$ , and a rational approximation  $\tilde{\lambda}_i^k(j)$  to  $\lambda_i^k(j)$  such that  $\tilde{\lambda}_i^k(j) = \Pi_i^k(j)/G^I$ . The approximation partitions  $\Gamma$  into sets  $\Gamma_k$  such that the cardinality of  $\Gamma_k$  is  $n_k$ . Associate every element in  $\Gamma_k$  with  $\Lambda_k$ .

Note that a subset  $H$  of  $\Gamma$  corresponds to a probability distribution over the  $\Lambda_k$  (the fraction of elements of  $H$  in  $\Gamma_k$  is the probability of  $\Lambda_k$ ), which in turn can be viewed as a probability distribution over  $\Theta$  (because each  $\Lambda_k$  corresponds to the distribution  $q_0^k$ ).

I claim that one can induce the distribution over belief profiles in which  $\tilde{q}^k$  arises with probability  $\tilde{r}_k$ . Associate with each  $\mathbf{g}$  in  $\Gamma_j$  subsets  $H_i(\mathbf{g}) \subset \Gamma$  for each  $i$ . Subsets  $H_i(\mathbf{g}) = \mathbf{g} \cup G_i(j)$ , where  $G_i(j)$  consists of  $l_i^k(j)$  elements from  $\Gamma_k$  for  $k \neq j$  and  $l_i^j(j) - 1$  elements from  $\Gamma_j$ , and  $G_i(j) \cap G_{i'}(j) = \emptyset$  for  $i \neq i'$ . It follows that  $\bigcap_{i=1}^I H_i(\mathbf{g}) = \mathbf{g}$ . Alternatively, with the information in  $H_i(\mathbf{g})$ ,  $i$  believes that the probability that  $\mathbf{g}$  is in  $\Gamma_k$  is  $\tilde{\lambda}_i^k(j)$ . Using the natural association of elements in  $\Gamma$  to elements in  $\Lambda$  and to  $\Lambda_k$  and beliefs, this means that  $H_i(\mathbf{g})$  induces beliefs  $\tilde{q}_i^j$ , which completes the construction.  $\square$

**PROOF OF PROPOSITION 4.** Given a distribution over action profiles  $\rho$  and  $\varepsilon > 0$ , let  $\hat{\rho}$  be a distribution over action profiles that assigns positive, rational probability to all action profiles and is within  $\varepsilon$  of  $\rho$ . Denote the  $N$  elements of  $\mathcal{A}$  by the integers  $1, \dots, N$ .

Without loss of generality, assume that the marginal probability of  $a_0$  is a uniform distribution over  $\{1, \dots, N\}$  (if the probability that  $a_0 = j$  is  $k_j/K$  under  $\hat{\rho}$ , create a new action set in with  $\sum_{j=1}^N k_j$  elements, replacing each state  $j$  by  $k_j$  identical copies).

Let  $\Theta = A^I \times A^I$ . Denote an element of  $\Theta$  by  $(\theta, \mathbf{b})$ , where  $\theta = (\theta_1, \dots, \theta_I) \in A^I$  and  $\mathbf{b} = (b_1, \dots, b_I) \in A^I$ .  $S = A \times A$ . States and signals are selected as follows. A uniform distribution selects  $\theta$ . The remainder of the state is selected so that the distribution of  $(b_0; b_1, \dots, b_I)$  is given by  $\hat{\rho}$ , where  $b_0 = \sigma(\theta) = 1 + \sum_{i=1}^I \theta_i \pmod{N}$ . In state  $(\theta, \mathbf{b})$ , individual  $i$  receives the signal  $(\theta_i, b_i)$ . Finally, define  $u(\cdot)$  so that

$$u(a, \theta, \mathbf{b}) = \begin{cases} 1 & \text{if } a = \sigma(\theta) \\ -c(a, \sigma(\theta), \mathbf{b}) & \text{if } a \neq \sigma(\theta) \end{cases}$$

and

$$c(a, \sigma(\theta), \mathbf{b}) = \begin{cases} C & \text{if } \mathbf{b} = (b, \dots, b) \text{ and } a \neq b \\ 0 & \text{otherwise.} \end{cases}$$

The optimal decision for the group is to set  $a_0^* = \sigma(\theta)$ . This earns payoff 1. All other actions receive nonpositive payoffs. For sufficiently large  $C$ , the optimal action for individual  $i$  is to set  $a_i^* = b_i$ . This action earns a positive payoff (equal to the probability that  $a_i^* = \sigma(\theta)$ ). Any other decision earns a negative payoff for sufficiently large  $C$  (this requires that  $\hat{\rho}$  assigns strictly positive probability to all action profiles). It follows that the induced distribution of action profiles is equal to  $\hat{\rho}$ .  $\square$

It may be useful to describe the construction in the proof of Proposition 4 in a bit more detail. The objective of the group is to guess the target  $\sigma(\theta)$ . If it does so, then its payoff is 1. Otherwise, the group may pay a cost. When it pools its information, the group has enough information to compute the target exactly. Individuals do not. Interpret  $\mathbf{b}$  as a recommended action profile. If an individual follows the recommendation, then he does not pay a cost. If an individual ignores the recommendation, then with positive probability he pays a cost. (To maintain symmetry across individuals, the cost is paid only when each individual receives the same recommendation.) Individuals, therefore, have a choice between following the recommendation and earning a positive expected payoff or ignoring the recommendation and paying a cost with positive probability. By assumption, no individual has perfect information about the group's best action. Consequently, there is a positive probability that failure to follow the recommended action will trigger the cost. For sufficiently large  $C$ , it will be strictly optimal for individuals to follow the recommendation.

**PROOF OF PROPOSITION 5.** If individual  $i$  has belief  $q_i(\cdot)$  given the signal  $s_i$ , then it follows from Bayes's rule that the probability individual  $i$  receives signal  $s_i$  given  $\theta$ ,  $\alpha_i(s_i|\theta)$ , satisfies

$$\alpha_i(s_i|\theta) = \mu_i(s_i) \frac{q_i(\theta)}{\pi(\theta)}, \quad (10)$$

where  $\mu_i(s_i) = \sum_{\omega} \alpha_i(s_i|\omega) \pi(\omega)$  is the probability that individual  $i$  receives  $s_i$ . Consequently, after any vector of signals  $\mathbf{s} = (s_1, \dots, s_I)$  that gives rise to the belief profile

$\{q_1, \dots, q_I\}$ , the group's posterior is

$$\frac{\pi(\theta) \prod_{i=1}^I \alpha_i(s_i|\theta)}{\sum_{\omega} \pi(\omega) \prod_{i=1}^I \alpha_i(s_i|\omega)} = \frac{\pi^{-(I-1)}(\theta) \prod_{i=1}^I q_i(\theta)}{\sum_{\omega} \pi^{-(I-1)}(\omega) \prod_{i=1}^I q_i(\omega)},$$

where the equation follows from (10) (the normalization factors  $\mu_i(\cdot)$  cancel out). This completes the proof.  $\square$

**PROOF OF PROPOSITION 6.** Denote the  $N$  elements of  $\mathcal{A}$  by the integers  $1, \dots, N$ . Let  $S = \mathcal{A}$ , let  $\Theta = \mathcal{A}^I$ , and let  $\pi(\cdot)$  be the uniform distribution on  $\Theta$ . For  $\theta = (\theta_1, \dots, \theta_I) \in \Theta$ , let  $\sigma(\theta) = 1 + \sum_{i=1}^I \theta_i \pmod{N}$  and let

$$u(a, \theta) = \begin{cases} 0 & \text{if } a = \sigma(\theta) \\ -1 & \text{if } a \neq \sigma(\theta). \end{cases}$$

An individual who observes  $s_i = \theta_i$  is indifferent over all  $a \in \mathcal{A}$ , while the group sets  $a_0^*(\mathbf{s}) = \sigma(\mathbf{s})$ .  $\square$

**PROOF OF PROPOSITION 8.** Suppose actions  $a_1 \leq a_2 < \dots \leq a_I$  are given. I will construct a monotonic information structure with two equally likely states,  $\underline{\theta}$  and  $\bar{\theta}$ ,  $I + 2$  signals  $s_{-1} < s_0 < \dots < s_I$ , action space  $\mathcal{A} = [0, 1]$ , and numbers  $f(\underline{\theta})$  and  $f(\bar{\theta})$  such that  $a_i^*(s_i) = a_i$  for  $i = 1, \dots, I$  and  $a_0(\mathbf{s}) = 1$ .

For any  $.5 < p_0 < p_I < 1$ , there exists  $p_{-1} < p_0$  such that for any  $p_i$ ,  $i = 1, \dots, I - 1$ , that satisfy  $0 < p_0 < p_1 < \dots < p_I$ , there exists  $\alpha(\cdot)$  such that for  $\theta = \underline{\theta}$  and  $\bar{\theta}$ ,  $\alpha(s_i|\theta) > 0$  for  $i = 1, \dots, I - 1$ ,  $\sum_{i=-1}^I \alpha(s_i|\theta) = .5$ , and

$$p_i = \frac{\alpha(s_i|\bar{\theta})}{\alpha(s_i|\bar{\theta}) + \alpha(s_i|\underline{\theta})}. \quad (11)$$

There are many possible ways to select positive  $\alpha(s_i|\theta)$  to satisfy (11) for all  $i > -1$  such that  $\sum_{i=0}^I \alpha(s_i|\theta) < .5$ . Let  $\alpha(s_{-1}|\theta) = .5 - \sum_{i=0}^I \alpha(s_i|\theta)$ . Provided that  $p_0 > .5$ ,

$$p_{-1} \equiv \frac{\alpha(s_{-1}|\bar{\theta})}{\alpha(s_{-1}|\bar{\theta}) + \alpha(s_{-1}|\underline{\theta})}$$

will be less than .5 (and hence less than  $p_0$ ). By picking  $p_0$  sufficiently close to 1, it is possible to satisfy

$$\frac{\alpha(s_{-1}|\bar{\theta})^{I-2} \alpha(s_0|\bar{\theta})^2}{\alpha(s_{-1}|\underline{\theta})^{I-2} \alpha(s_0|\underline{\theta})^2} > \frac{\alpha(s_I|\bar{\theta})}{\alpha(s_I|\underline{\theta})}. \quad (12)$$

Let

$$p_{I+1} = \frac{\alpha(s_{-1}|\bar{\theta})^{I-2} \alpha(s_0|\bar{\theta})^2}{\alpha(s_{-1}|\bar{\theta})^{I-2} \alpha(s_0|\bar{\theta})^2 + \alpha(s_{-1}|\underline{\theta})^{I-2} \alpha(s_0|\underline{\theta})^2}.$$

Select  $f(\underline{\theta})$  and  $f(\bar{\theta})$  to satisfy

$$\begin{aligned} (1 - p_{I+1})f(\underline{\theta}) + p_{I+1}f(\bar{\theta}) &= 1 \\ (1 - p_0)f(\underline{\theta}) + p_0f(\bar{\theta}) &= 0, \end{aligned}$$

and, for these values of  $f(\underline{\theta})$  and  $f(\bar{\theta})$ , let  $p_i$  satisfy

$$(1 - p_i)f(\underline{\theta}) + p_if(\bar{\theta}) = a_i \quad (13)$$

for  $i = 1, \dots, I$ . It is straightforward to verify that  $p_i > p_{i-1}$  if and only if  $a_i > a_{i-1}$ , and that if  $u(a, \theta) = -(a - f(\theta))^2$ , then  $a_i = a^*(s_i)$  and  $a_0^*(s_1, \dots, s_I) = 1$ . Furthermore, since  $a^*(s_i) = 0$  for  $i = -1, 0, 1$ , provided that at least two messages are greater than  $s_{-1}$  (12) implies that  $a_0^*(\mathbf{s}) = 1$ , so that it is possible for each individual to recommend the lowest action while the group prefers the highest action.

Completing the proof requires several routine observations. The same type of construction guarantees the existence of a monotone information structure in which the group's decision is 0 given any individual recommendation. It is then straightforward to modify the argument to information structures that induce group decisions that are inside the range of individual recommendations. To rationalize all actions when  $u(a, \theta) = (a\theta + (1 - a)\theta_0)^\beta$ , one selects  $p_i$  to satisfy the first-order condition induced by the alternate utility function (in place of (13)). It is straightforward to extend the information structure to permit continuous signals and a continuous state space that satisfy monotonicity properties.  $\square$

**PROOF OF PROPOSITION 9.** Suppose that  $\mathbf{a}_0 = (a_1, \dots, a_I)$ , with  $0 \leq a_1 \leq \dots \leq a_I$  and  $a_{I-1} > 0$ . Proposition 8 implies the result unless  $a_1 = 0$ . If  $a_1 = 0$ , then set  $s_{-1} = s_0 = s_1$ , but construct the information structure as in the proof of Proposition 8 so that  $a_i^*(s_i) = a_i$  and  $a_0^*(\mathbf{s}) = 1$  (which, provided  $a_{I-1} > 0$ , is still possible, since the posterior given  $\mathbf{s}$  will dominate the posterior given the signal associated with  $a_I$ ).  $\square$

**PROOF OF PROPOSITION 10.** Without loss of generality, let  $a_1 = \min_{1 \leq i \leq I} a_i$  and  $a_I = \max_{1 \leq i \leq I} a_i$ . Let  $s_i$  satisfy  $a_i^*(s_i) = a_i$ . By invariance,  $a_1 = a_1^*(s_1) = a_0(s_1, \dots, s_I)$  and  $a_I = a_I^*(s_I) = a_0(s_I, \dots, s_I)$ . Because the problem is strictly increasing,  $s_I \geq s_1$  and  $s_i \in [s_1, s_I]$  for all  $i$ . It follows from Corollary 1 that  $a_0^*(s_1, \dots, s_I) \in [a_1, a_I]$ .  $\square$

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